ITT Refused Chile Offer For Holdings

4/10/72

By Marilyn Berger
Washington Post Staff Writer

The International Telephone and Telegraph Corp. has refused to accept a series of proposals by the Chilean government for the purchase of property it sought to nationalize.

Chilean officials feel that ITT, recently accused of maneuvering to prevent the 1970 election of Chilean President Salvador Allende, preferred to wait for its U.S. government expropriation insurance to come due. This would bring the company more prompt—and possibly greater—compensation for its property than would a long-term payment agreement with Chile.

Either way, however, ITT would get out with a good portion of its investment.

If ITT can negotiate a deal with the Allende regime, Chile pays all or part of the bill. If not, a U.S. government agency must cover the insured part of

See CHILE, A4, Col. 1

CHILE, From A1

ITT's investment, $108.5 million. In the long run, if the government insurance program runs out of reserves built up through premiums and investments, the U.S. taxpayer could be left holding the bag.

Records of the negotiations, made available to The Washington Post, how that the fact that ITT's investment is insured by the government had a crucial impact on the company's posture during its discussions with Chile.

Insurance to cover risk capital invested abroad has been established to encourage private corporations to supplement U.S. aid programs by putting money in the less-developed countries.

Instruments of Policy

Private corporations in this way, become instruments of U.S. government policy to the extent that the government can — by granting or withholding insurance — influence where private funds are invested. The insurance, in turn, can encourage large multinational companies to feel a sense of partnership with the government, and as a result come to expect U.S. protection of their interests.

ITT's difficulties with Chile come at a time of widespread questioning about the role of the multinational corporation and the wisdom of fostering government-business relationships abroad. The Senate Foreign Relations Committee is planning hearings on this situ-

Opposing Viewpoints

ITT is taking the position that Chile, by appointing an "intervenor" to turn Chiltelco, the Chilean Telephone Company, has effectively expropriated the corporation's interests. It has filed a claim to collect its insurance.

The Chilean government, on the other hand, insists that the appointment of an intervenor in no way constituted a denial of ITT ownership and that it has sought, through lengthy negotiations, to purchase ITT's 70 per cent interest in Chiltelco. It has proposed that independent experts determine the value of ITT's holdings to establish a fair purchase price.

Chilean officials claim—and the negotiating record would seem to lend some credence to this claim—that ITT has been dragging its feet on the assumption that Uncle Sam will bail it out.

It is in ITT's interest to appear to have been negotiating if it is to meet the requirements of the Overseas Private Investment Corporation (OPIC), the U.S. government agency with which it holds expropriation insurance.

15 Years Otherwise

At the same time it would also be in ITT's interest—and in the interests of its stockholders who stand to be the real losers if there is no compensation—to appear to have been expropriated so that it can quickly collect its insurance. Any payments from Chile would be stretched over at least 15 years.

ITT values its 70 per cent investment in Chiltelco at $153 million, approximately two-thirds of which, $108.5 million, is insured through four OPIC policies on which it has paid $5 million in premiums. The Chilean government owns 24 per cent of the company and the remaining 6 per cent is in the hands of private Chilean citizens.

Chilean officials, who say the company's interest is worth closer to $25 million, charge that ITT has overstated the value of its investment in order to receive a higher return. Since Chilean law allows public utilities to receive a 10 per cent return on investments, Chilean officials say ITT was able to increase its real income by "overstating" the value of the investment in the books.

ITT maintains that Chilean officials have been on the Chiltelco board all along and could have checked the books at any time.

ITT has stated that it "is unwilling to sell out for less than book value in dollars." Chilean officials claim the government is seeking a "fair and amicable" agreement but that whenever conversations approached a "concrete formula for an understanding," ITT has always insisted that Chile accept all its conditions, "bringing up on each occasion the problems that might be created for Chile if ITT were to collect its insurance from OPIC."

Repeated Warnings

They say ITT has repeatedly warned Chile that the company's insurance with OPIC could not be overlooked and that if Chile refused to accept company proposals to determine purchase price in accordance with the "book value," talks would become "difficult" and Chile would finally end up dealing with the United States government.

Chilean officials say ITT representatives have repeatedly stressed that if OPIC's resources were insufficient to cover insurance policies the agency would have to go to the U.S. Congress for funds —thus harming Chile's image in the United States.

In fact, an OPIC spokesman said current reserves would be sufficient to cover an ITT claim.

Negotiations for the sale of ITT's interests began early in 1971. In a background memorandum issued by ITT last September, the company said that in May of 1971, following four sessions of talks with Chilean representatives on sale arrangements, "it became apparent that an impasse had been reached." According to the corporation, "the government presented a memorandum of observations which boiled down to a conclusion that the government placed the value of Chiltelco's net worth at approximately $24 million, in spite of the fact that the company records—all of which had been audited by

independent public accountants and approved by the Chilean government for almost 40 years—showed the book value of the net worth to be more than $150 million." The company memorandum stated that ITT "is unwilling to sell out for less than book value in dollars."

Improvement Claimed

ITT claims to have steadily improved Chile's telephone service.

In the background memorandum, ITT noted the "steady growth" of Chiltelco "to keep pace with the Chilean economy." It said that in the last 10 years ITT invested more than $84 million in Chiltelco, "plus an additional $40 million of supplier financing arranged through ITT system houses and foreign bank loans to help provide funds for recent expansion of the company."

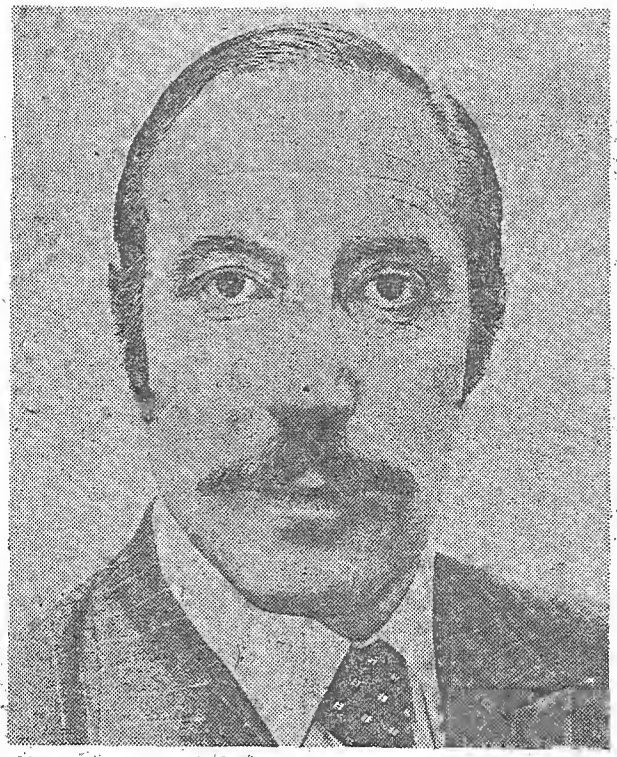
The memorandum stated: 'As against the investment and financing commitments of about $124 million, during the last 10 years Chiltelco remitted to ITT only $19 million." A recent request for a note increase to meet higher costs, it says, was effectively turned down.

Chile, on the other hand, puts the net value of ITT holdings closer to $25 million. Chilean officials further charge that ITT failed to provide improvements and expansion contracted for and say that Chilean telephone service is scandalously poor.

Chileans back up their charges of poor service with statistics. In 1940, Chilean officials say, statistics of the International Telecommunications Union show that Chile had 1.77 telephones per 100 inhabitants, constituting 93.2 per cent of the world average of 1.9 per hundred. By 1970, Chile had 3.12 telephones per hundred inhabitants, a drop to 51 per cent of the world average of 7.1 per hundred.

According to American Telephone and Telegraph Statistics, Chile's telephone service was 87 per cent automated compared with a world average of 95 per cent automatization. Chilean officials say that according to company technicians 16 calls out of 1,000 remain incompleted compared with a world average of two per thousand.

Chilean Ambassador to the United States Orlando Lete-



By Jim McNamara—The Washington Post

Orlando Letelier, Chilean Ambassador to the U.S., takes the view that if ITT's claim of its worth is correct, a telephone line in Chile would cost $1,000 instead of the world average of $400 to $500.

lier told a Santiago newspaper on Oct. 15, 1971 that if the real value of the company was the same as that claimed by ITT, "a telephone line in Chile would cost $1,100 compared with an average world cost between $400 and $500."

To determine the real value of the ITT holdings, Chile proposed that the property be assessed by international experts from the International Telecommunications Union.

Still Divided on Issue

ITT turned down this proposal and suggested, instead, that independent accountants check the company's books. The two sides remain divided on this issue.

In September, 1971, when the Chilean government appointed the "intervenor" to take charge of the management of Chiltelco, it charged that ITT was involved in activities harmful to the communications system, which was of strategic importance to the country.

The Chilean government said that act did not amount to a denial of ITT ownership and it wanted to arrange to buy ITT's interest. ITT however immediately filed a claim with OPIC for expropriation of its 70 per cent interest in Chitelco.

According to an OPIC spokesman, the ITT claim becomes "mature" in October, 1972, one year after the expropriation. An OPIC official said last week that the insurance corporation recognizes that taking control of the operations of a company if it continues for a year, constitutues expropriation under the terms of the insurance.

OPIC is required to conduct an audit to determine whether ITT has invested al lthe funds for which it has insurance.

OPIC officials say they have 'monitored" the negotiations as they are required to do to be able to ascertain that the insured company is acting in good faith. They would not comment, however, on what advice they gave to ITT or whether they urged the corporation to accept the Chilean proposal for any independent assessment of value.

ITT has taken the position that any independent assessment could not justly determine the value of the holdings once an intervenor had taken charge of the operations.

After ITT filed its claim with OPIC, negotiations for purchase continued. On March 8, Chilean officials say, they presented to ITT a proposal they were prepared ot sign immediately, which would provide for payment over a period of 15 years with a three-year grace period. Interest would be similar ot the rate now being established for the renegotiation of Chile's external debt but would not exceed 6 per cent. Under this proposal the value was to be determined in an assessment by international experts.

Chealean officials said they sent a copy of this proposal to the State Department.

According to Chilean officials, John W. Guilfoyle, chief of ITT's South American division who has been handling negotiations for the company, said ITT wanted to avoid any participation of international experts because of the delays it would imply. Instead, Guilfoyle suggested that a group of ITT technicians deal directly with a group of Chilean technicians.

An ITT spokesman, asked last week about the current status of negotiations with Chile, would say only that the last meeting was held with Chilean Ambassador Letelier "late in February" and that subsequently "the ambassador suggested there be a temporary abeyance of discussions."

According to the Chileans, ITT's Guilfoyle was personally presented with the March 8 proposal in a meeting at the Chilean embassy.

Disclosures Cited

Beyond that, Chilean officials say that the government was about to make a new offer to ITT when columnist Jackson disclosed alleged ITT documents involving efforts to block Allende's election in 1970. Chilean Ambassador Letelier, they say, informed the U.S. Ambassador in Santiago, Nathaniel Davis, on March 17, that the Chilcan government was prepared to accept the ITT proposal for direct discussions with Chilean technicians but for a period to be limited to "not longer than 10 to 15 days."

Letelier returned to Washington on March 20. The next day the first in a series of columns by Anderson appeared on ITT's clandestine efforts to block Allendes' election.

Letelier never made the new proposal to the company.

ITT, meanwhile, was apparently waiting for the other shoe to drop. According to Chilean officials, Guilfoyle telephoned the embassy on the morning of March 22, after the second Anderson column concerning Chile appeared, to ask whether the embassy knew of the Anderson papers.

Called Mere Gossip

It did.

Guilfoyle went on to explain that the Anderson revelations were mere gossip to be expected in an election year, Chilean officials.

A Chilean official said he informed Guilfoye that "certain matters" would have to be clarified before there could be another meeting with the ambassador.

There have apparently been no contacts since shortly after the Anderson disclosures began while in Chile, there are growing demands for confiscation of ITT holdings.

The Chilean embassy here is noncommittal about what the next move, if any, will be. ITT, meanwhile, need do little more than wait until Oct. 1 for its OPIC insurance contracts to come due.